A Research Proposal Entitled

"A STUDY ON CREDIT APPRAISAL PRACTICES IN MICRO, SMALL AND MEDIUM ENTERPRISES LENDING BY STATE BANK OF INDIA WITH REFERENCE TO LATUR DISTRICT"

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By

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1.1 INTRODUCTION:

Banking system plays a significant role in economy of any country. From ancient, banks provide credits and accept deposits. Banks are intermediaries between savers and borrowers. In modern era, banks are providing diversified loans to several section of society. To develop the Indian economy banks have expanded their credit to industry and priority sector with introducing specialized schemes.

State Bank of India is one of the largest commercial banks in India found in 1806 as Presidency Bank of India. Today, SBI is providing number of financial products and services to 42 Crore customers. State Bank of India thoughtfully formed to meet the financial need of average Indians like deposits, insurance, mutual fund investment schemes, loans like personal, vehicle, housing, corporate loan, MSME loan and so on. The study is focused on MSME lending and its credit appraisal by State Bank of India.

Devyash Patel in his article in 'I am wire' published that Micro, Small and Medium Enterprises are "engine of growth" of Indian economy. MSMEs employed more than 50 million workforces. And MSMEs contributes 8% of GDP. But, this sector is facing problem of inadequate fund. Due to this MSMEs cannot produce the required output within the time. MSMEs need the financial assistance from Banks and financial institutions. Banks and financial institutions have the facility of credit and financial schemes for MSMEs sector. But due to enlarge the loan to this section, the problem of overdue and non-repayment, gap between promise and performance and improper management also increased. So, it become necessary to tackle these problems for smooth running of banking system in MSMEs credit. Before sanction the loan, any banks verify the all necessary documents required and go through guidelines by Reserve Bank of India. This process is referred as Credit Appraisal.

Credit Appraisal refers to assess and evaluate the credit worthiness of a Loan applicant. Credit Appraisal is the process by which lending institutions critically examine the technical feasibility, economic viability and bankability including creditworthiness of the prospective borrower. The proposal submitted by loan applicant studies thoroughly to determine the ability of repayments. Banks and financial institutions have standard rules and regulations to assess the loan proposal. Credit appraisal is very essential part before financing to avoid the risk of non payments by borrowers. Factors like age, income, previous loan and so on are taken into account while appraising the credit worthiness of a proposal.

Furthermore, the credit score is considered by bank or financial institution in the assessment. Credit score is score given to the borrowers based on repayment track. The credit score is report creates by credit bureaus like CIBIL (Credit Information Bureau India Limited). High credit score indicates timely repayments and low credit score indicates irregular repayments or no repayments. Credit score provides eligibility for loan application, then after, credit assessment process is to be followed for taking decision on sanctioning the loan.

Credit Rating System:

According to Cambridge dictionary, "credit rating means, calculation of someone's ability pay back the money that they have borrowed." The definition expresses that, credit rating means giving the rate based on repayment history of loan applicant. This rates can be A, AA, AAA or 1,2,3,4,5. Credit rating agency like CIBIL keep watches on the repayments of all borrowers and gives the rates.

Factors considered in Credit assessment of MSMEs proposals: Credit History**,** Vested Interest**,** Working Capital**,** Ability to repay**,** Experience and character and so on.

Every MSME loan applicant has to go through this process and every bank or lending institution has its own panel of officials for credit appraisal purpose. State Bank of India at Latur district is selected to get thorough knowledge about credit assessment techniques and analyze the effects of loans (given after appraisal) to both lenders and borrowers. The study will accomplish specifically MSME (Micro, Small and Medium Enterprises) sector lending. Hence, the present research is regarding the process of credit appraisal in MSMEs by SBI in Latur district and to know whether it will help to recover loans or not.

1.2 SIGNIFICANCE OF THE STUDY:

The study of banking is constantly interesting topic from the different dimensions. Credit appraisal technique is one of the integral parts performed by bank. Everyone has to know the requirements by bank before applying for loan. The study will facilitate people specially to loan applicant about the process of credit assessment, so that they will take necessary steps to avoid delay in loan sanction. MSME loan applicant will have the knowledge about the credit score so they will aware to repay previous and current loans. They timely prepare proper documents with good track record. This study will help to bank to understand the problems of MSME applicant in process of evaluation and can solve the

problems with taking necessary steps. This study will reveal the problems and challenges to both bank and MSME borrowers and provide some recommendations.

1.3 REVIEW OF LITERATURE:

Judith J. Madill, Lisa Feeney, Alan Riding, George H. Haines Jr. (2002), studied by using the empirical research to identify the satisfaction of SME and bank relationship in Canada. 3,190 respondents were taken for study. Most of SME are satisfied with the bank management and lending process by bank manager. **Prof M. Chandraiah , R. Vani. (2014),** carry out the study to know definition and performance of MSMEs, problems and governments policies towards MSMEs in India. The study concluded that, performance of small scale industries was growing in units, employment, production and exports. Furthers it is added that MSMEs sector faced major challenges as lack of availability of credit in time, high interest rates, collateral requirements, limited access to equity capital, insufficient infrastructure facilities, Problems of storage, designing, packaging and product display, lack of skilled manpower for production and marketing that needed to sort-out. **Ms. Sugandha Sharma, Ms. Pooja Kalra. (2015),** attempts the study to know the meaning and importance of credit appraisal in loan system, criteria of bank in loan appraisal and process of credit appraisal in MSMEs lending. The paper is based on secondary data. Outcome of study are credit appraisal is done by assessment of management, technical feasibility, financial viability, risk analysis and credit rating. It also thoroughly analyzes the capacity to repay the debt. Finally it has concluded that, MSMEs has good system for credit appraisal and the credit appraisal process carried out at MSMEs has good parameters to appraise. **Patience ChidoMakomeke, ChipochedengaMakomeke, Miriam Chitura. (2016),** conducted the study to know the reason of poor risk management of banks in management and effectiveness of credit appraisal technique in Zimbabwean commercial banks. It has analyzed public and private sector lending and banks prefer public sector lending. Finally, it concluded that, there is significant relation between credit appraisal and asset quality. Many banks follows number of credit appraisal technique, this helps to improve asset quality. **Dr. Sadaf Khan. (2017),** studied SME problems in assessing the finance. Without finance SME cannot grow and develop the economy. The study suggested to banking and financial institution to improve technology oriented lending scheme of lending to SME, so improve and expand its business at regional and enter in global markets. According to **Prof P Sheela, Mr. Pavan Kumar Raju (2017),** in their papers titled “Credit Challenges Faced by Financial Institutions and

Small Businesses in India: A Review Of Literature" which is based on secondary data highlights both point view challenges by banks and SME or small business in financing. Lender avoids high risk business to provide loan. Small business deals with high interest, lack of knowledge. It is suggested to establish academic institution to help both lenders and business borrowers. **Mandeep Kaur, Ubique, (2017),** studied factors affecting Small Scale Entrepreneur borrowers in getting loans. Primary data has collected for study. They concluded that, heavy documentations and complex procedure delays in loan sanction and resulted in low production and loss to business. it is suggested that there is need to develop relationship between bank and business and give importance to SSI lending.

1.4 SCOPE OF THE STUDY:

The study will through light on credit appraisal practices with reference to MSME lending. To carry the study, data will collect the form of both manager and related staff of SBI bank and MSMEs customers in Latur district. The study will analyze the factors determining credit assessment by State Bank of India and also acquire the knowledge about the credit risk assessment model used for MSME lending in Latur district.

1.5 OBJECTIVES OF THE STUDY:

1. To get the comprehensive knowledge of credit appraisal methods in MSMEs lending.
2. To understand the Credit appraisal techniques and Credit Risk Assessment Models employed by State Bank of India.
3. To study various schemes and online facilities available for MSMEs.
4. To examine the credit given and recovery rate of lending to MSMEs sector.
5. To study the problems and challenges by bank and MSME borrowers.

Hypothesis:

H_1 = Credit appraisal technique of State Bank of India in MSMEs lending is satisfactory.

H_2 = There is high risk in MSME lending.

H_3 = Promoters are aware and satisfied with credit appraisal system of State Bank of India.

1.6 LIMITATIONS OF THE STUDY:

1. The area of study is limited only to Latur district.
2. The study is limited to MSMEs sector lending by State Bank of India.
3. The study is allied with credit assessment practices and its effects on bank and MSME borrowers.

1.7 RESEARCH METHODOLOGY:

To study the credit appraisal system in MSMEs lending by SBI the researcher will use exploratory, descriptive and analytical research method. The data will assemble from both primary and secondary sources.

A. Primary Source:

The primary data will collect through interview method and Questionnaire by filling up from sample selected from bank managers and MSME borrowers of State Bank of India.

B. Secondary Source:

The secondary data is collected by documents, records and annual reports of banks books, Journal, salaried publications, website.

Sample Design:

The study will consists of both State Bank of India and its MSME borrowers as a sample drawn from State Bank of India's branches in Latur district. There are 48 branches of SBI in Latur district. Form these branches MSMSE credit manager and 10% MSME borrowers will be taken for the study. Simple random sampling method will be used for selecting sample, and to collect data questionnaire, interviews and pilot survey will used.

Statistical tool for Data Analysis:

Following tools are used for presentation & analysis:

1. Data presentation: Table, Graphs and charts and Percentage.
2. Data Analysis: Chi Square Test and T-test to test the hypothesis of the study.

CHAPTER SCHEME:

Chapter Scheme includes the following chapters:

Chapter I: Introduction First chapter covers the general Introduction, Importance of MSMEs in India Economy, Government policies relates to MSMEs, Credit policy of RBI for MSMEs.

Chapter II: Review of Literature: Third chapter consist of Review of Literature related to study.

Chapter III: Research Methodology: This chapter is concerned with significance, objectives of study, hypothesis, importance, scope and limitations of study. It also includes method of research and method of data collection adopted for study.

Chapter IV: Importance and growth of MSMEs in Latur District: Chapter four consisting number of MSMEs in Latur district, the status and growth of MSMEs, Employment generation, Problems and challenges face in carrying the business and obtaining credit form banks. Government schemes for MSMEs development.

Chapter V: Credit Policy of SBI to MSMEs: This chapter allied with credit policy of State Bank of India, Credit rating techniques of State Bank of India, Credit Appraisal techniques and process, credit risk assessment model and data analysis and interpretation of credit lending of State Bank of India to MSMEs.

Chapter VI: Findings, recommendations and conclusions: The last chapter recapitulates the findings, recommendations for improvement, represent conclusions.

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